

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

DOCKET FILE COPY ORIGINAL
RECEIVED
APR 12 1996

In the Matter of

Amendment to Part 65, Interstate Rate of
Return Prescription Procedures and
Methodologies Subpart G, Rate Base

)
)
)
) CC Docket No. 96-22
)
)

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

COMMENTS OF BELL SOUTH

BellSouth Corporation and BellSouth Telecommunications, Inc.

("BellSouth") hereby offer comments in response to the Notice of Proposed Rulemaking ("NPRM"), FCC 96-63, released March 7, 1996 in the captioned proceeding.

In the NPRM, the Commission proposes to adopt rate base rules for postretirement benefits other than pensions ("OPEBs") that track the rate base rules applicable to pensions. Specifically, the NPRM proposes to allow inclusion in rate base of prepaid OPEB costs recorded in Account 1410. The Commission's rationale for such treatment is that these prepaid costs were funded by shareholders and earn a return that reduces the amounts that companies must accrue in the future periods. The proposed treatment of OPEB costs is the same as has traditionally been applied to prepaid pension costs. The NPRM also proposes to remove from rate base the interstate portion of all costs recorded in Account 4310. The Part 65 Rules currently require the removal from rate base of unfunded, accrued pension liabilities included in Account 4310. The Commission's theory for removing unfunded, accrued pension costs from rate

No. of Copies rec'd
List ABCDE

029

base is that such costs have been recovered from ratepayers, but not yet paid to employees and as such represent a zero-cost source of funds that should not be included in rate base. The Commission proposes to remove all liabilities recorded in Account 4310 from rate base. Alternatively, the Commission seeks comment on a "more modest" proposal to extend the rate base exclusion now applicable to pensions to OPEBs, but to allow the remaining liabilities recorded in Account 4310 to remain in rate base.

BellSouth is concerned with piecemeal modification to the Commission's rate base rules. The Commission's rate base rules already result in calculated accounting earnings that are higher than BellSouth's actual return on total capital because these rules produce a rate base that is lower than the capital required to provide interstate telecommunications services. Deducting the balance in Account 4310 from rate base will simply exacerbate this condition and move the earnings reported to the Commission further from economic reality.

If the Commission wants to revisit its rate base rules, it should consider applying the simplified working capital method applicable to Class B carriers to all local exchange carriers ("LECs"). A formula method would be far simpler to administer than the Commission's current rate base rules, which require complex lead-lag analyses. Historically, the Commission has expressed concern that a simplified approach might permit carriers to "pad" the rate base with imprudent investments. However, the Commission has since mandated price cap regulation for the largest LECs and has adopted incentive regulation for the smaller LECs.

These changes make any concerns about "rate base padding" largely academic. A formula approach would be much simpler to administer than the current rate base rules and would better align the carriers' regulated earnings with economic reality. It would also streamline the Commission's rate base rules to eliminate costly lead-lag studies that serve very little purpose in a price cap environment. Streamlining the rate base rules is consistent with the intent of Congress that the Commission eliminate unnecessary regulation wherever it can do so and still serve the public interest.

Therefore, BellSouth recommends that the Commission avoid the piecemeal changes in the rate base rules proposed in the NPRM. The changes proposed in the NPRM would simply exacerbate a situation in which the interstate rate base is below the level of prudently invested capital used in the provision of interstate telecommunications services. If the Commission wishes to review the rate base rules, it should initiate a comprehensive review designed to

simplify the rate base rules and eliminate unnecessary and burdensome regulatory requirements that serve little purpose in the current environment.

Respectfully submitted,

BELLSOUTH CORPORATION and
BELLSOUTH TELECOMMUNICATIONS, INC.
By their attorney,

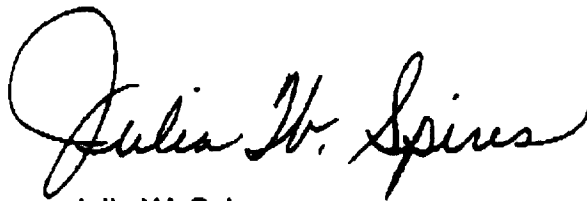
A handwritten signature in cursive script, appearing to read "M. Robert Sutherland", written in black ink.

M. Robert Sutherland
1155 Peachtree Street, N.E., Suite 1700
Atlanta, GA 30309-3610
(404) 249-4839

April 12, 1996

CERTIFICATE OF SERVICE

I hereby certify that I have this 12th day of April, 1996, serviced all parties to this action with the foregoing COMMENTS reference to Docket CC 96-22, by hand service.



Julia W. Spires

**Office of the Secretary
Federal Communications Commission
Washington, D.C. 20554**

**International Transcription Service
Room 140
2100 M Street, N.W.
Washington, D.C. 20037**